

Buying a tenanted property isn't always a guaranteed win

According to Jacqui Savage, national rentals business development manager at the Rawson Property Group, tenanted properties aren't always a guaranteed win for purchasers.



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“There is no hard and fast rule about whether a tenanted property is a good investment or not,” says Savage. “It all depends on the specific circumstances, and each purchase has to be weighed on its own merits.”

Savage explains that because South African law states that “huur gaat voor koop”, or “lease comes before sale”, the new owner of a tenanted property is required to honour any existing lease agreements to the letter, until such time as the lease expires. “That means the quality and terms of the existing lease – not to mention the quality and attitude of the existing tenant – play a huge role in the viability of the property as an investment – at least in the short-term,” she says.

Make inspecting the lease a top priority

In light of this, Savage advises that prospective purchasers make inspecting the lease a top priority when assessing the potential of a tenanted property as an investment. “Once transfer has taken place, you will have to step directly into the shoes of the previous landlord, so understanding the rights and responsibilities, and any legacy issues that come with that are absolutely imperative,” she says. “It’s not just rent collection that you need to think about either – you’ll need to do things like manage the deposit and take responsibility for any maintenance or repairs that fall within your purview as well.”

If not properly considered beforehand, these aspects can cause some serious headaches when taking over a tenanted property. “The last thing you want is to inherit a deposit dispute, or a slew of expensive repairs,” says Savage, “so you do need to ensure that your rights in these matters are protected as far as possible in the sales contract you sign.”

Savage says that meeting the existing tenant or the rental agent before signing a sale with an ongoing lease agreement is always a good idea if possible, not only to discuss the ins and outs of the property, but also to assess their reliability as a lessee. “The benefit of taking over a lease is that there’s a proven tenant payment history, and visible evidence of how well they’ve treated the property in the past,” she notes, “but the risk is that they may change their behaviour if they feel they’re being treated unfairly because of the sale.”

Discuss future expectations

To decrease that likelihood, Savage advises having a discussion about future expectations with the tenant. “Find out whether they hope to renew the lease when it expires, or if they would prefer to find new accommodation as early as possible. It could go a long way towards a happy future landlord-tenant relationship, and provide some useful insight into the property’s potential as well,” she says.

With a fair lease in place and a responsible and satisfied tenant in residence, Savage acknowledges that a tenanted property can be the ideal investment. “Just do your homework to avoid a few common pitfalls, and make sure all the contracts are completely above board,” she says. “If you have any doubts, contact a qualified and respected real estate agent with sound rental experience.”

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